

**Sonos, Inc.’s Opp’n to Google LLC’s
Motion *In Limine* No. 4**

EXHIBIT D
(FILED UNDER SEAL)

HIGHLY CONFIDENTIAL-ATTORNEYS' EYES ONLY

**IN THE UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION**

GOOGLE LLC,

Plaintiff,

v.

SONOS, INC.,

Defendant.

Case No. 3:20-cv-06754-WHA
Related to Case No. 3:21-cv-07559-WHA

**REBUTTAL EXPERT REPORT
REGARDING DAMAGES**

January 13, 2023

Respectfully Submitted,



W. Christopher Bakewell

TABLE OF CONTENTS

| | | |
|-----|---|----|
| 1 | Introduction..... | 1 |
| 1.1 | Qualifications And Experience | 1 |
| 1.2 | Overview Of Assignment..... | 2 |
| 1.3 | Summary Of Opinions..... | 6 |
| 1.4 | Facts, Data And Information Considered..... | 13 |
| 2 | Background..... | 15 |
| 2.1 | Overview Of The Patents-in-Suit | 15 |
| | Overview Of The ‘033 Patent..... | 16 |
| | Overview Of The ‘885 Patent And ‘966 Patent..... | 18 |
| 2.2 | Overview Of Sonos | 21 |
| 2.3 | Overview Of Google | 22 |
| 2.4 | Overview Of Accused Products And Accused Functionalities..... | 23 |
| | ‘033 Patent: Overview Of The Accused Functionality | 23 |
| | ‘885 Patent: Overview Of The Accused Functionality (Directed To Speaker Groups) | 31 |
| | ‘966 Patent: Overview Of The Accused Functionality (Directed To “Computing Devices”)..... | 36 |
| | Google Internal Code Names..... | 38 |
| 2.5 | Overview Of The Competitive Environment | 39 |
| 3 | Overall Framework For Determining Patent Infringement Damages..... | 52 |
| 3.1 | Overall Framework..... | 52 |
| 3.2 | The Hypothetical Negotiation(s) | 55 |
| | ‘033 Patent: Hypothetical Negotiation Date | 56 |
| | ‘885 And ‘966 Patents: Hypothetical Negotiation Dates..... | 56 |
| 3.3 | Form Of Royalties | 57 |
| 4 | Introduction To Rebuttal Analysis..... | 60 |
| 4.1 | Recap Of Mr. Malackowski’s Theories, Including Basic Errors Contained Therein..... | 60 |
| | ‘033 Patent: Summary Of Mr. Malackowski’s Theories..... | 60 |
| | ‘885 And ‘966 Patents: Summary Of Mr. Malackowski’s Theories | 68 |
| | Overview Of Mr. Malackowski’s “Revenue Splits” | 75 |

| | | |
|-----|--|-----|
| 4.2 | '033 Patent: Mr. Malackowski's Damages Theories Are Conceptually Unsound And Unreliable | 77 |
| 4.3 | '885 And '966 Patents: Mr. Malackowski's Damages Theories Are Conceptually Unsound And Unreliable | 92 |
| 5 | Income Approach: Mr. Malackowski's Damages Theories Are Speculative, Flawed And Unreliable..... | 104 |
| 5.1 | '033 Patent: Mr. Malackowski's "Primary" Theory (YouTube Advertising And Subscription Revenue) Is Unreliable And Yields Inflated Results | 106 |
| | Mr. Malackowski's Starting Point Is Unreasonably Broad | 107 |
| | Mr. Malackowski's "MDx Playback Time Share" Is Flawed And Unreliable | 110 |
| | Mr. Malackowski's 70:30 "Revenue Split" Is Unfounded, Unreliable And Not Substitute For Apportionment | 111 |
| | Mr. Malackowski's Implied Royalty Rate Is Speculative, Overstated And Unreliable..... | 111 |
| 5.2 | '033 Patent: Mr. Malackowski's "Informatory" Theory (YouTube Advertising And Subscription Gross Profits) Is Unreliable And Yields Inflated Results | 114 |
| 5.3 | '885 And '966 Patents: Mr. Malackowski's Royalty Theory Is Unreasonable And Yields Inflated Results | 118 |
| | Mr. Malackowski Disregarded Other Evidence Of Limited Incremental Benefits | 123 |
| | Mr. Malackowski's Royalty Base For The '885 Patent Is Flawed And Unreliable..... | 130 |
| | Mr. Malackowski's Royalty Base For The '966 Patent Is Flawed And Unreliable..... | 131 |
| | Mr. Malackowski's Starting Point Is Too Broad Which Causes Him To Make A Series Of Unreliable "Apportionments" | 134 |
| | Mr. Malackowski's 10% "Apportionment Metric" Is Flawed And Unreliable | 140 |
| | Mr. Malackowski's "Lifetime Value" Estimate Is Speculative, Flawed And Unreliable..... | 142 |
| | Mr. Malackowski's Feature Based "Apportionment Metric" Of Three Or More Smart Speakers Is Flawed And Unreliable | 144 |
| | Mr. Malackowski's 70:30 "Revenue Split" Is Speculative, Flawed And Unreliable..... | 146 |
| 6 | Cost Approach: Mr. Malackowski Disregarded Commercially Acceptable NIAs And | |

| | |
|--|-----|
| The Principle Of Substitution | 146 |
| 6.1 '033 Patent: Analysis Of Commercially Acceptable, Non-Infringing Alternatives | 151 |
| Commercially Acceptable NIA Category A1: Cloud Service, Not Playback Device, Communicates With Cloud Servers To Identify Next One Or More Media Items In The Remote Playback Queue | 152 |
| Commercially Acceptable NIA Category A2: Continue Playback On The Computing Device After Playback Is Transferred ("Fire And Forget") .. | 156 |
| 6.2 '885 'And 966 Patents: Analysis Of Commercially Acceptable, Non-Infringing Alternatives | 160 |
| Commercially Acceptable NIA Category B1: When An Accused "Standalone" Speaker Is Added To A Target Group, It Matches The Music (Or Silence) Of The Target Group..... | 160 |
| Commercially Acceptable NIA Category B2: No Overlapping Groups .. | 165 |
| 7 Market Approach: Mr. Malackowski's Analysis Is Flawed And Unreliable | 169 |
| 7.1 Mr. Malackowski Mistreated Sonos Licensing Evidence | 170 |
| Mr. Malackowski Mistreated The 2018 Sonos – Denon Agreement | 171 |
| Mr. Malackowski Mistreated The 2020 Sonos – Lenbrook Agreement... | 172 |
| Mr. Malackowski Mistreated The 2020 Sonos – Legrand Agreement..... | 174 |
| 7.2 Mr. Malackowski Mistreated Sonos Licensing Negotiations With Google.. | 177 |
| 7.3 Mr. Malackowski's Treatment Of Google Patent Licenses Is Flawed..... | 180 |
| Mr. Malackowski Mistreated The 2012 [REDACTED] – Google Agreement | 181 |
| Mr. Malackowski Mistreated The 2013 Garnet – Google Agreement | 182 |
| Mr. Malackowski Mistreated The 2014 [REDACTED] – Google Agreement | 184 |
| Mr. Malackowski Mistreated The 2017 [REDACTED] – Google Agreement | 187 |
| Mr. Malackowski Mistreated The 2019 [REDACTED] – Google Agreement | 190 |
| 7.4 Mr. Malackowski's Rationale For Dismissing Google Patent Purchase Agreements Is Unsound | 192 |
| Mr. Malackowski And The Invention Investment Fund I Patent Acquisitions | 193 |
| Mr. Malackowski Mistreated The 2011 Outland Research – Google Agreement..... | 194 |

| | |
|--|-----|
| Mr. Malackowski Mistreated The 2016 [REDACTED] – Google Agreement..... | 199 |
| Mr. Malackowski And The 2017 [REDACTED] – Google Agreement..... | 204 |
| 7.5 ‘033 Patent: Mr. Malackowski’s “Alternative” Theory (Third-Party Casting Apps) Is Flawed And Unreliable..... | 204 |
| Mr. Malackowski’s Royalty Base Is Flawed And Unreliable | 207 |
| Mr. Malackowski’s Royalty Rate Based On Subscription Fees Of Third-Party Casting Apps Is Flawed And Unreliable..... | 208 |
| Mr. Malackowski’s 70:30 “Revenue Split” Is Speculative, Flawed And Unreliable..... | 213 |
| 8 Potential Baseline Measures Of Reasonable Royalties (Mr. Malackowski’s “Quantitative Indicators”)..... | 213 |
| 9 Mr. Malackowski’s Assessment Of The Georgia-Pacific Factors Is Unsound | 221 |
| G-P Factor 1: Royalties Received By The Patentee | 222 |
| G-P Factor 2: Royalties Paid By The Licensee For The Use Of Other Patents Comparable To The Patents-In-Suit..... | 223 |
| G-P Factor 3: Nature and Scope Of The License | 223 |
| G-P Factor 4: Licensor’s Established Policy And Marketing Program | 224 |
| G-P Factor 5: Commercial Relationship Between The Licensor And The Licensee | 225 |
| G-P Factor 6: Convoyed, “Tag-Along,” And Collateral Sales..... | 234 |
| G-P Factor 7: Duration Of The Patent And Term Of The License | 239 |
| G-P Factor 8: Established Profitability Of The Patented Product, Its Commercial Success, And Its Current Popularity..... | 240 |
| G-P Factor 9: Utility And Advantages Over Old Modes Or Devices; And | 244 |
| GP Factor 10: Nature Of Intellectual Property, Character Of The Commercial Embodiment, And Benefits Of Use..... | 244 |
| G-P Factor 11: Extent Of Use And Evidence Probative Of The Value Of The Use | 247 |
| Mr. Malackowski Did Not Measure Usage For ‘033 Patent | 248 |
| Mr. Malackowski Did Not Measure Usage For ‘885 And ‘966 Patents... | 252 |
| Summary Of G-P Factor 11 | 254 |
| G-P Factor 12: Profitability And Industry Royalty Rates | 255 |

HIGHLY CONFIDENTIAL-ATTORNEYS' EYES ONLY

G-P Factor 13: Apportionment.....255

G-P Factor 14: Opinion Of Qualified Experts.....262

G-P Factor 15: Outcome Of The Hypothetical Negotiation(s)262

10 Other Issues In The Malackowski Report268

11 Reservation of Rights.....271

which include wireless, portable, and home theater speakers, components and accessories.⁹⁸ Sonos's "target audience is primarily audiophiles and wealthier households."⁹⁹

67. Sonos describes itself on its website as a "pioneer of wireless audio."¹⁰⁰ Sonos has a network of partners including Amazon, IKEA, Sonance and Audi, among others.¹⁰¹
68. According to the Complaint, Sonos is a leading company in terms of granted U.S. patents, having more than 940 patents, including the patents-in-suit, with hundreds more patents in other countries.¹⁰² Sonos also states that its patent portfolio is highly valuable.¹⁰³

2.3 Overview Of Google

69. Headquartered in Mountain View, California and incorporated in September 1998, Google originated as an internet search engine; the company has grown to be a global enterprise cloud computing provider.¹⁰⁴
70. Google's mission is to "to organize the world's information and make it universally accessible and useful."¹⁰⁵ Google operates a product and service ecosystem that includes operating

⁹⁸ "Sonos: Lost The Battle Before It Started," SeekingAlpha.com, March 21, 2019 (accessed: <https://seekingalpha.com/article/4250335-sonos-lost-battle-started>).

⁹⁹ Sonos, Inc.'s 10-Q for quarter ended April 2, 2022, p. 8; "Sonos, Inc. (NASDAQ: SONO)," USIT, June 21, 2020, p. 1; SONOS-SVG2-00055769, at 777, 785. Sonos products are sold through "third-party physical retailers, including custom installers of home audio systems, select e-commerce retailers, and its website, sonos.com."

¹⁰⁰ "About Sonos," Sonos website (accessed: <https://www.sonos.com/en-us/our-company>).

¹⁰¹ SONOS-SVG2-00226112-209, at 118-119, 146, 148, 158; Sonos's Form 10-K for fiscal year ended December 31, 2021, pp. 5-6, 7, 31-32, 33.

¹⁰² Malackowski Supplemental Report, p. 13, citing Sonos, Inc.'s Third Amended Complaint, *Sonos, Inc., v. Google, LLC*, 3:21-cv-07559, March 30, 2022, p. 2. As of December 2022, Google held over 31,000 active U.S. patents, and over 16,000 active foreign patents. Innography Patent Search, (accessed: <https://patentscout.innography.com/>); Alphabet Inc. Form 10-K for the fiscal year ended December 31, 2019, p. 9.

¹⁰³ Sonos, Inc.'s Third Amended Complaint, *Sonos, Inc., v. Google, LLC*, 3:21-cv-07559, March 30, 2022, p. 2, citing Exhibits E and F. I note that neither Sonos nor Mr. Malackowski have claimed that the patents-in-suit are among its most valuable patents.

¹⁰⁴ Google held an initial public offering in August 2004. In 2015, through corporate restructuring, Google Inc. became a subsidiary of Alphabet Inc. ("Alphabet"). In 2017, Google Inc. was converted to the limited liability company, Google LLC, which became a subsidiary of XXVI Holdings Inc., which was a subsidiary of Alphabet. Google Inc., Form 10-K for the fiscal year ended December 31, 2015, p. 18; Alphabet Inc., Form 10-K for the fiscal year ended December 31, 2021, p. 25.

¹⁰⁵ Google, Inc. Form 10-K for the period ending December 31, 2021, p. 4.

systems, streaming services and mobile devices.¹⁰⁶ Over the years, Google has continued to improve “the discovery and creation of digital content” through platforms such as YouTube and Google Play.¹⁰⁷

71. Google has made significant advances in search, mobile computing, artificial intelligence, natural language processing, machine learning, voice-assisted technologies and analytics.¹⁰⁸ Google technologies are included in household products such as smart home speakers (e.g., Google Home), smart displays (e.g., Nest Hub), smart mesh router systems (e.g., Nest Wifi Point), smart dongles (e.g., Chromecast), smartphones (e.g., Google Pixel), tablets (e.g., Google Pixel Slate), and laptops (e.g., Google Pixelbook), among other products.¹⁰⁹

2.4 Overview Of Accused Products And Accused Functionalities

72. I provide a brief overview of the accused functionalities and products for the patents-in-suit in the following paragraphs.

‘033 Patent: Overview Of The Accused Functionality

73. At a high level, I understand that Sonos alleges the accused products for the ‘033 patent include: (i) Pixel devices pre-installed with the YouTube Main and/or YouTube Music apps that allegedly directly infringe the asserted claims of the ‘033 patent; (ii) smartphones, tablets or laptops (including Android, iOS and ChromeOS devices) “provisioned” with the YouTube Main, YouTube Music, YouTube Kids or YouTube TV apps that allegedly indirectly infringe

¹⁰⁶ “Google Products,” Google (accessed: <https://about.google/products/#all-products>); “Google Products,” Google Store (accessed: <https://store.google.com/?hl=en-US>); “Google LLC,” Capital IQ (accessed: <https://www.capitaliq.com/CIQDotNet/company.aspx?companyId=312932093&fromSearchProfiles=True>); “The Ecosystem of Google Technologies,” CIO Review (accessed: <https://google.cioreview.com/cxoinight/the-ecosystem-of-google-technologies-nid-5859-cid-82.html>).

¹⁰⁷ Google, Inc. Form 10-K for the period ending December 31, 2021, p. 4.

¹⁰⁸ Alphabet Inc. Form 10-K for the fiscal year ended December 31, 2021, pp. 4-6 (accessed: <https://www.sec.gov/Archives/edgar/data/1652044/000165204422000019/goog-20211231.htm>); “Stairway to Heaven,” BNP Paribas, April 21, 2021, p. 7; “Google CEO Still Insists AI Revolution Bigger Than Invention Of Fire,” Gizmodo, July 14, 2021 (accessed: <https://gizmodo.com/google-ceo-still-insists-ai-revolution-bigger-than-inve-1847288454>); “Overcoming The Innovation Readiness Gap,” BCG Consulting, April 2021 (accessed: <https://web-assets.bcg.com/d5/ef/ea7099b64b89860fd1aa3ec4ff34/bcg-most-innovative-companies-2021-apr-2021-r.pdf>).

¹⁰⁹ GOOG-SONOSNDCA-00057035; GOOG-SONOSNDCA-00056973; SONOS-SVG2-00055681-768, at 738-739; Alphabet Inc. Form 10-K for the fiscal year ended December 31, 2020, p. 6; “Stairway to Heaven,” Exane BNP Paribas, April 21, 2021, p. 7.